

## Case 4 The Status of E-Tailing in China<sup>c-4</sup>

<sup>c-4</sup> The material in this case is drawn from "Reluctant E-Tailers: What's Keeping China's Big Chains Offline?" <http://knowledge.wharton.upenn.edu> (May 4, 2011).

In April 2011, Gome ([www.gome.com.hk](http://www.gome.com.hk)), one of China's largest brick-and-mortar consumer electronics and home appliance retailers, set up an online presence. Gome's move into the Web was significant as few of China's stores had a Web presence. A study by iResearch, an Internet research firm, found that of the 30 largest Chinese Web-based merchants in terms of revenue, 26 were Web only. This is in sharp contrast to the United States, where only five of the largest Web-based retailers are clicks only.

Research by the China Chain Store and Franchise Association (CCFA) examined the current status of E-tailing in China. One of its major findings was that only 34 of the top 100 retail chains in China even had a Web presence. Furthermore, most of these retailers had Web sites that only described product attributes as opposed to selling. As a CCFA executive noted: "Most traditional Chinese retailers have no clear idea why they're going online, how big their online business should be, and how it [functions within] their overall business."

Unfortunately, too many large Chinese retailers do not understand the synergies associated with multi-channel retailing. According to the founder of a Shanghai-based online supermarket, "offline and online retail are very different industries. There is a huge disparity between the two, particularly in terms of IT [information technology] expertise, supply chain structure, human capital management, and marketing. Offline retailers that want to build an online channel are essentially starting from scratch."

In order to succeed, Chinese bricks-and-mortar retailers need to better understand how IT and logistics need to be managed in a multi-channel environment. Unfortunately, too many Chinese store-based retailers have planned their Web-based operations using existing IT personnel. These personnel typically do not have the skill set and experience to manage order processing, payment processing, customer monitoring, and other tasks that are unique to Web operations.

One way for Chinese store-based retailers to transition into multiple channels is through partnerships with suppliers. Suning ([www.suning.com/include/english](http://www.suning.com/include/english)), a large electronics and home appliance retailer, worked with IBM in the development of its Web site. It also collaborated with Baidu (<http://ir.baidu.com>), China's largest search engine, to generate traffic. Likewise, Uniglo ([www.uniglo.com](http://www.uniglo.com)), a Japanese casual clothing chain, formed a partnership with Taobao ([www.taobao.com/index\\_global.php](http://www.taobao.com/index_global.php)), China's largest Internet retailer. As a result, Uniglo's site attracted 400,000 visitors within 10 days after its initial launch.

Many Chinese retailers have long-term relationships with major suppliers that provide them with top-selling goods, as well as lower costs due to more bargaining power with suppliers. Leading Chinese retailers also have warehouses that result in speedy delivery throughout China and have high awareness and trust levels among Chinese consumers.